

STATE CONTROLLER'S OFFICE  
PERSONNEL/PAYROLL SERVICES DIVISION  
P.O. Box 942850  
Sacramento, CA 94250-5878

DATE: December 17, 2003

PAYROLL LETTER # 03-026  
CIVIL SERVICE ONLY

TO: All Agencies in the Uniform State Payroll System

FROM: JOHN R. HARRIGAN, Chief  
Personnel/Payroll Services Division

RE: **DEPENDENT CARE BENEFIT SUBSIDY IRS REPORTING**

This Payroll Letter provides information regarding the IRS reporting requirements for the annual Work and Family Program's Dependent Care Benefit Subsidy payments. This subsidy first became available in 2003 and will continue until the program sunsets on June 30, 2005. Payments for 2003 have already issued to employees, however, in order to meet the IRS reporting requirements the SCO will be producing zero balance credit issue warrants and accounting transfers (TC 38 transactions). This method will allow for the Dependent Care Benefit Subsidy amount to be reported in Box 10 of the employee's Form W-2. Payments for 2004 and 2005 will issue during the first quarter of each year. For information regarding the Dependent Care Benefit Subsidy program, please refer to DPA's Personnel Management Liaison (PML) memorandums 2002-026, 2003-019, 2003-025 and 2003-029.

#### FORM W-2 REPORTING

Although the Dependent Care Benefit Subsidy payments are non-taxable, the payment amount must be reported to IRS in the Dependent Care Section (Box 10) of the employee's Form W-2, combined with their FlexElect Dependent Care Reimbursement Account deductions. For the SCO Annual System to be able to recognize and include these figures on the employee's Form W-2, the payments must be processed through the Controller's Payroll System as a Dependent Care deduction. Two deduction/organization codes have been established for this purpose.

#### DEPENDENT CARE SUBSIDY CODE

Deduction/organization code 353-030 is non-taxable (reduces taxable gross), and will appear as a debit transaction, similar to the Dependent Care Reimbursement Account code. It will take funds from the employee, send them to DPA's FlexElect Dependent Care Reimbursement Account fund and report the amount as a Dependent Care payment for the employee's Form W-2. Each year the organization code number will increase, using 031 for 2004 and 032 for 2005.

#### DEPENDENT CARE ALLOWANCE CODE

Deduction/organization code 354-200 is taxable (increases and offsets taxable gross) and will be used to issue a Dependent Care Allowance to the employee to offset the Subsidy deduction. These deductions will appear as credit deductions and will look similar to the FlexElect Cash Option, CoBen Benefit Allowance or Rural Health Care Equity Program (RHCEP) Premium Reimbursement codes. The Dependent Care Allowance will be paid from each employee's respective department's appropriation.

#### TC 38 ACCOUNTING TRANSACTIONS

Similar to the monthly RHCEP process, during the first week of the month following the payments, SCO Accounting will process a TC 38 transaction to transfer funds back from DPA's FlexElect Dependent Care Reimbursement Account Fund to the department's appropriation. The TC 38 transaction will identify the year of the Dependent Care

Allowance and post the gross amount of the transfer. Dollars for the annual Dependent Care Benefit Subsidy will be reported under "Flexible Benefits", Clearance System Object of Expenditure Code #103134.

#### PAYMENT INFORMATION

The payments will be zero balance credit issue warrants using a payment type 'P'. To prevent confusion and minimize questions from employees we recommend that the zero balance warrants and their corresponding Statement of Earnings or Direct Deposit Advices NOT be released to the employees. A deduction description has not been created for these deductions. Without a deduction description, nothing specific will be listed under the Earnings or Deductions sections. Instead, the amounts would be combined and reported as "DED ADJ" under the Earnings section. Since one deduction appears as a debit code and the other appears as a credit code, both of equal amounts, they will offset each other to produce a net balance of zero. Please note that employees who are on direct deposit should not see a zero balance deposit to their account.

A PPM revision will be forthcoming.

#### CONTACTS

Payroll questions on the Dependent Care Benefit Subsidy Program may be directed to Sandra Young with SCO at (916) 324-1293 or email [syoung@sco.ca.gov](mailto:syoung@sco.ca.gov). Questions regarding the Dependent Care Benefit Subsidy Program or DPA's forthcoming PML may be addressed to Rosanne McHenry with DPA at (916) 327-0522.

JRH:SJY:PMAB